

## FASB Amendment for Recording Discontinuing Operations

According to the FASB, there have been a number of disposals of small groups of assets which qualify for discontinued operations presentation under existing U.S. GAAP. This usually results in financial statements that are less useful for intended readers of the financial statements. Additionally, some interested parties state that applying the existing standard for a presentation of discontinued operations result in higher costs for preparers because it can be complex and difficult to apply.

The amendment helps address the issues noted above by changing the criteria for reporting discontinued operations.

The amendment improves the definition of discontinued operations by limiting discontinued operations reporting to disposals of components of an entity that represent strategic shifts that have (or will have) a major effect on an entity's operations and financial results. Under current U.S. GAAP, many disposals, some of which may be routine in nature and not a change in an entity's strategy, are reported in discontinued operations.

The following conditions in the current definition of discontinued operations have been removed:

- a. The operations and cash flows of the component have been (or will be) eliminated from the ongoing operations of the entity as a result of the disposal transaction.
- b. The entity will not have any significant continuing involvement in the operations of the component after the disposal transaction.

The changes in the above definition are expected to reduce complexity in determining discontinued operations by the elimination of the current requirements to assess whether a component's operations and cash flows have been eliminated from the ongoing entity and the significance of continuing involvement with a disposed component.

Additional items of note from the amendment:

A business or nonprofit activity that, on acquisition, meets the criteria to be classified as held for sale is reported in discontinued operations. Currently, U.S. GAAP does not include a business or nonprofit activity in the definition of a discontinued operation.

A disposal of an equity method investment that meets the definition of discontinued operation is reported in discontinued operations. Currently, disposals of equity method investments are not within the scope.

This amendment would also require an entity to disclose the pretax profit or loss of an individually significant component of an entity that does not qualify for discontinued operations reporting. This additional disclosure should provide users with information about the financial effects of significant disposals that do not qualify for discontinued operations reporting.

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Welcome to our November 2014 edition of the **A&A Advisor**. Our A&A Advisor continues to focus on issues impacting the Commercial, Governmental and Non-Profit Sectors; providing you with insight and guidance on new rules, proposed changes and views of standard setters to assist you in the management of the financial and reporting aspects of your organization. I encourage you to contact us with any comments or questions you may have.



Dino

Dino Zicopoulos  
Partner, Accounting & Auditing  
dzicopoulos@wiss.com  
973.994.9400

# \$875 Million owed by Tax-Exempt Organizations for Delinquent Payroll Taxes

By Diana Miller, Director of Not-for-Profit Services

A recent report released by the Treasury Inspector General for Tax Administration (TIGTA) determined that greater than 64,200 tax-exempt organizations had accumulated approximately \$875 million in federal tax debt. Of the 64,200 tax-exempt organizations, over 1,200 owed a total of approximately \$656 million, approximately 7,000 owed from \$10,000 to \$100,000, and approximately 56,000 owed under \$10,000.

TIGTA reviewed a judgmental sample of twenty-five tax-exempt organizations that were engaged in possibly criminal or abusive activity (or both). These twenty-five organizations had greater than \$25 million in federal tax debt. Examination of fifty-two salaries of top officials for these twenty-five organizations found abusive activity such as officers not filing 1040 personal tax returns and underreporting wages creating millions of dollars in lost revenue.

Although tax-exempt organizations are generally not required to pay income taxes, they are required to pay employee payroll taxes (such as Social Security, Medicare and Federal income tax). The federal tax debt spans several years back and consists of payroll taxes as well as penalties and interest. The dollar amount is an estimate since it doesn't include those tax-exempt organizations that don't file payroll tax returns and perhaps should. Federal liens and levies were filed against the twenty-five tax-exempt organizations and the fifty-two officers, however

tax-exempt status of the organizations was not revoked for failure to pay the taxes.

The key significant recommendations by TIGTA for the IRS Director of Exempt Organizations are as follows:

- Coordinate with the IRS's Small Business/Self-Employed Division management to receive collection information;
- Regularly perform analyses to find tax-exempt organizations with unpaid payroll and other federal taxes and consider for examinations; and
- Work with the Department of the Treasury to evaluate noncompliance by tax exempt organizations.

IRS management disagreed with the first two recommendations, however agreed to notify the Treasury regarding the third recommendation.

In summary, tax-exempt organizations are required to adhere to certain tax requirements and should ensure they have policies and procedures in place with proper oversight to ensure they are not delinquent in paying the required taxes. For further details see:

<http://www.treasury.gov/tigta/auditreports/2014reports/201410012fr.html>.

## FASB Amendment for Recording Discontinuing Operations (continued from page 1)

The effective dates for entities that are not public business entities and a not-for profit entity that has not issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the counter market are as follows:

1. All disposals (or classifications as held for sale) of components of an entity that occur within annual periods beginning on or after December 15, 2014, and interim periods within annual periods beginning on or after December 15, 2015.
2. All businesses or nonprofit activities that, on acquisition, are classified as held for sale that occur within annual periods beginning on or after December 15, 2014, and interim periods within annual periods beginning on or after December 15, 2015.

An entity should not apply the amendments to a component of an entity, or a business or nonprofit activity that is classified as held for sale before the effective date even if the component of an entity, or business or nonprofit activity, is disposed of after the effective date. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issuance. If your company is a public company please refer to ASU 2014-08 for the effective date for your company.

(Information above was derived from Financial Accounting Standard Board (FASB) update 2014-08 *Presentation of Financial Statements and Property, Plant, and Equipment Reporting Discontinued Operations and Disclosures of Components of an Entity*.)

# Amendment on Development Stage Entities

The FASB has issued an amendment to reduce reporting requirements for development stage entities (Topic 915). The FASB has determined that the incremental cost associated with the additional reporting requirements for development stage entities was not necessary based on the responses received by the users of these financial statements. The FASB has determined based on responses received that the inception-to-date information, and certain other disclosures currently required under U.S. generally accepted accounting principles (GAAP) is no longer relevant to users of the financial statements. The amendment will remove the definition of a development stage entity from the Master Glossary of the Accounting Standards Codification, thereby removing the financial reporting distinction between development stage entities and other reporting entities from U.S. GAAP. In addition, the amendments will eliminate the requirements for development stage entities to (1) present inception-to-date information in the statements of income, cash flows, and shareholder equity, (2) label the financial statements as those of a development stage entity, (3) disclose a description of the development stage activities in which the entity is engaged, and (4) disclose in the first year in which the entity is no longer a development stage entity that in prior years it had been in the development stage.

Another key aspect of the amendment as noted in the amendment is the removal of paragraph 810-10-15-16. Paragraph 810-10-15-16 states that a development stage entity does not meet the condition in paragraph 810-10-15-14(a) to be a variable interest entity if (1) the entity can demonstrate that the equity invested in the legal entity is sufficient to permit it to finance the activities that it is currently engaged in and (2) the entity's governing documents and contractual arrangements allow additional equity investments. Under the amendment, all entities within the scope of the Variable Interest Entities Subsections of Subtopic 810-10 Consolidation – overall will be

required to evaluate whether the total equity investment at risk is sufficient using the guidance provided in paragraphs 810-10-25-45 through 25-47, which requires both qualitative and quantitative evaluations.

As per FASB update 2014-10 "Development Stage Entities" the effective date of the amendment is as follows:

The amendment related to the elimination of inception-to-date information and the other remaining disclosure requirements of Topic 915 should be applied retrospectively except for the clarification to Topic 275, which shall be applied prospectively. For public business entities, this amendment is effective for annual reporting periods beginning after December 15, 2014, and interim periods therein. For other entities, this amendment is effective for annual reporting periods beginning after December 15, 2014, and interim reporting periods beginning after December 15, 2015. For public business entities, the amendment eliminating the exception to the sufficiency-of-equity-at-risk criterion for development stage entities in paragraph 4 810-10-15-16 should be applied retrospectively for annual reporting periods beginning after December 15, 2015, and interim periods therein. For all other entities, the amendment to Topic 810 should be applied retrospectively for annual reporting periods beginning after December 15, 2016, and interim reporting periods beginning after December 15, 2017. Early application of each of the amendments is permitted for any annual reporting period or interim period for which the entity's financial statements have not yet been issued (public business entities) or made available for issuance (other entities). Upon adoption, entities will no longer present or disclose any information required by Topic 915 "Development Stage Entities."

(Information for this article was derived from Financial Accounting Standard Board (FASB) update 2014-10 *Development Stage Entities*.)



# Take an Accounting Quiz on Goodwill

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True or false...

**The FASB requires an entity to test goodwill (indefinite-lived intangible assets) for impairment at least annually, by using a quantitative approach by comparing the fair value of the assets with its carrying amount.**

*Answer: False.* In accordance with ASC 2012-02 (Intangibles-goodwill and other), an entity has the option first to assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If, after an entity assesses the qualitative factors and determines that an entity is not more likely than not that the indefinite lived intangible asset is impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value by performing a quantitative approach.

**An entity is not required to document their qualitative assessment on goodwill impairment.**

*Answer: False.* Even though the entity is allowed to perform a qualitative assessment before performing a quantitative assessment on goodwill impairment. Management is required to document their qualitative assessment and have written support for their assessment.

**The FASB has approved an amendment that will allow all companies to be able to amortize goodwill for 10 years or less.**

*Answer: False. (Trick question... please read since amortization is possible.)* The FASB approved the amendment proposed by The Private Company Council (PCC) to allow all entities except for public business entities and not-for-profit entities (therefore not effective for all companies) to elect an alternative method for amortizing goodwill. An entity that meets the criteria above may elect the alternative method which will allow goodwill to be amortized on a straight line basis for 10 years or less, if an entity can demonstrate that another useful life is more appropriate. The alternative method will allow clients to test goodwill only when a triggering event occurs. You should contact your accountants if you are considering an election of the alternative method since this may be a method that may not meet your needs and there will also be various disclosure requirements. The amendment will be effective for periods beginning after December 15, 2014.

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